

Industry Sector Analysis

ITALY

Study Outline

Executive Summary

Italy's tourism industry is a major driving force of the economy. According to the World Tourism Organization Italy is the fourth most visited country - behind Spain and preceding China (fifth) and the U.K. (sixth). It is also interesting to note that Italy has remained, during the last fifty years, among the five most visited countries. The World Tourism Organization reports incoming tourists as 41.2 million. This represents a 12.8% increase over the previous year, well above the world average of 7.4%. Italy's importance as a tourism destination grew even more on the international market thanks to the Jubilee 2000 proclaimed by the Catholic Church. In order to prepare for this event Italy spent several billion dollars to renovate churches and cities of historic and cultural interest. The benefits of these infrastructure projects will be felt for years to come. The country, seen by some as an "open museum", has in the recent past dedicated more attention to its archaeological and historical resources. In addition to the traditional sites such as the Coliseum, Venice, Tower of Pisa, Florence, there are less known tourist attractions, especially in the south of Italy. These sites will contribute to the major growth in this sector.

Although Italy is still looked at as a destination for relaxation (sea, mountains, lakes etc), art and culture are equally key attractions to the visitor. In fact, the Italian government has begun to capitalize on its cultural and historic heritage, in particular through major renovations of historic sites. Most popular sites in Italy now stay open until midnight. As a result, attendance at museums and other cultural sites has increased dramatically in recent years (as much as 30%).

There is a plan to raise tourism levels in the eight most southern regions by creating interregional cultural itineraries: colonies of ancient Greece, colonies of Phoenicia and the ancient agricultural regions of Abruzzo, Molise, and Apulia. Most regional and local governments have expanded their efforts to attract more tourism and build infrastructure to accommodate this influx, and have inserted tourism-related projects in their programs. The Campania region alone (which includes the provinces of Naples, Avellino, Salerno, Caserta and Benevento) with the scenic Sorrento and Amalfi/Positano coastline, has at least twenty projects. Of these projects, most will be financed through EU funding and supplemented by local government. U.S. companies can access these non-refundable grants through a subsidiary in an EU country or by partnering with an EU firm. There is also an Italian government agency, Sviluppo Italia, which helps foreign companies enter into the Italian market.

Market Trends & Best Prospects

Italy's road and motorway system constitutes one of the most extensive systems in Europe and dominates Italy's transport network. Italy has an extensive airport network consisting of 19 international, 17 domestic and 59 general aviation airports. To further improve air transport, most of the regional governments plan to upgrade one airport in their region to international status and others to operate on an interregional basis. Most major Italian airports are being privatized and often expanded. British Airport Authority (BAA) is the major shareholder of Naples airport. Bari and Catania are also in the process of privatization. Italy has six major seaports: Genoa, Livorno, Naples, Palermo, Trieste and Venice. Most of these are equipped to receive cruise ships, a sector that has grown in recent years. There are also 35 smaller ports mainly used for coastal shipping and yachts.

The principal obstacle to the full development of Italy's tourism potential is lack of adequate transport infrastructure, especially in southern regions. However, southern regions, paradoxically, have better and more efficient hospitality facilities than central/northern regions, since many of these were built in the late 70s and 80s and even early 90s.

The Italian government has taken concrete steps to promote and develop Italy's tourism industry. With regard to Southern Italy ("the Mezzogiorno"), tourism activities are viewed as key factors to revitalize depressed areas and increase employment. Italy's goal is to maintain, and possibly increase, its share of world tourism by offering good quality hospitality at competitive prices and, in particular, by improving access to and promotion of southern resorts and cultural sites. The regions of Molise and Basilicata have targeted sustainable tourism so as to avoid the environmental depredations experienced by Campania and Calabria.

The Italian government has recently introduced the following principles:

- tourism is recognized as a strategic sector for Italy's economic growth;
- local administrators in towns with major tourism attractions will have autonomous budgets and power to develop their own tourism strategies;
- the law introduces the concept of "standard of quality service" to be met by the operators;
- the Italian Tourism Board privatized to increase its effectiveness and efficiency

The Italian government's main objectives in the Italian tourism sector are:

- § Increase investment to boost the quality of infrastructure in southern Italy

Tourism development in southern Italy depends on the improvement of its transportation network. In southern Italy neither railways nor motorways reach many tourist centers. While airports have a good prospective of growth, marinas are inadequate for growing demand.

- § Italy's cultural heritage

Recently Italy's Historical and Artistic heritage was classified as a potential economic resource. This applies in particular to southern Italy development in view of the high number of archeological and artistic sites present in the area.

§ Create higher quality resort chains:

Southern regions have a shortage of hotels and lack prestigious holiday villages. Higher quality hotels are to be built to integrate with those already existing, and re-route family tourism from boarding houses to holiday villages.

§ Tourism around the year:

The annual volume of tourism to southern Italy is around 15% of the national total and mainly concentrated in the summer season. In view of the favorable climate and facilities available, other tourism markets should be promoted such as cultural, spa and convention tourism that could operate throughout the year.

§ Promote southern Italy tourism in international tourism sectors:

Italy, and the south in particular, needs more foreign tourist traffic to ensure steady growth. Including southern hotels, resorts, holiday villages, and archeological and artistic sites into international tour operators' packages can promote this growth.

Best Prospects for U.S. companies:

- § Resort Development(golf, marina, theme parks)
- § Hotel management/Franchising
- § Hotel management education/training
- § Financial consulting and tourism project financing
- § Airport /planning and management services
- § Architecture, Construction, Engineering Services

Competitive Analysis

There are several hotel facilities successfully run by Italian companies that cover the higher niche of the market and the management of these will, for the present, be retained by the domestic market. Other Italian hotel chains, Jolly Hotels for example, which have a good network on Italian territory and are also present in most western European major cities, are upgrading their facilities.

Presently, the French are entering the Italian market, especially southern Italy, with a strong presence by Accor (a giant in medium-quality hotel facilities), followed by Pierre & Vacances which have expressed interest in wanting to control 3.000 thousand condominium apartments in southern Italy by 2004. The French companies have contacted the Italian Government's investment promotion agency, Sviluppo Italia, to facilitate their entry into the market.

There are several hotels affiliated with Best Western throughout Italy with a strong presence in southern Italy (Capri, Naples, Catania). The Four Seasons and other major hotel chains are present in the Italian market. Holiday Inn has been present for several years; the Ramada Inn chain has recently signed a management contract with companies in Puglia and Catanzaro

(Calabria). The Hilton is also present (both direct and management agreements). Other major hotel chains are reviewing the possibility of signing management contracts in Bari and Catania. A major Californian golf designer has recently signed a contract with an Apulian entrepreneur to plan a golf course. The same designer is working on several other projects throughout Italy.

The British Airport Authority (BAA) has recently taken over the management of Naples International airport, and is looking at other international and regional airports that are being privatized. Also, the Aeroport de Paris is bidding for the management of Catania and Bari airports.

Although the Italian motorway is under expansion, there will be no room for foreign competitors since the Italian companies are experts in the field. This also applies to railway expansion.

Landrum and Brown (aerospace) opened an office in Rome last month to follow directly the privatization of the management services of several airports (Brindisi, Bari) as well as the feasibility studies of the intercontinental airport for the Campania region. Parsons was selected as advisor for the construction of the Messina strait bridge. Boeing/McDonnell Douglas has risk-sharing projects with Alenia aerospace (Nola in the province of Naples).

The tourism infrastructure sector holds numerous possibilities for U.S. companies, especially in southern Italy, in the fields of hotel development, hotel franchising, management, education and training. Most of the Italian regions are working on golf courses development for their areas; therefore there would be opportunities for experts in this field.

End Users

· Campania International Airport

The region of Campania is planning to develop a new airport network system. It has recently issued a tender for a pre-feasibility study to verify the necessity of an international airport located in Grazzanise (province of Caserta), south of Rome. Campania already has two airports (Naples - which will probably remain as the city airport with international flights and some charter flights to the Americas, and a regional airport, Pontecagnano, which serves the Sorrento/Positano coastal towns).

· Marina di Stabia

The yacht harbor complex at Castellamare di Stabia is a joint venture between private investors and local banks. The complex is to become the focal point of a marina network in southern Italy (25 nautical miles from Capri, Ischia, Amalfi, Positano and Sorrento). Castellamare di Stabia belongs to the most important yachting circuits of the Southern Tyrrenean Sea, which covers the Campania coast from Gaeta (near Rome), to Maratea (Basilicata region). The project, Marina di Stabia, has potential capacity of over 1400 yachts. It would provide tourist and commercial activities for customers from other nearby yachting areas. Market research studies show two market targets: 1) absorb thriving local year-round recreational boating, which does not find

suitable berths and quality services in nearby marinas; and 2) attract higher level seasonal traffic, which is not adequately served by existing marinas.

Castellamare di Stabia, a town near Naples, comes under the Italian Government special development program for southern Italy. The total investment is USD 174 million with a return-on-investment projected at around 8.36%. A third of this is provided by government grants. The port's building phase is expected to last 45 years. Special labor laws would be implemented in this project (including fiscal incentives, reduction of labor costs and flexible working hours).

The project has received the necessary approvals/permits and has been financed. Sub-contracting and management opportunities are available.

· **Yacht Harbor – Catania**

The project is to build primary and secondary infrastructure to serve a marina in Catania's port.

The plan foresees a marina to serve 1,500 yachts of various sizes (up to a maximum of 30 meters) dry docks and other auxiliary services. The primary infrastructure would be piers and relevant facilities, connection of water and electricity, welcome centers, parking areas, etc. Secondary services would include hotels, restaurants, banks, and shopping facilities.

The primary infrastructure (estimated at 37 million USD) has already been financed with regional funds; secondary infrastructure would require private investors.

Hotels and apartments, recreational facilities, and ocean front resort in resort town on Adriatic Coast

The Andidero Group, located in Puglia, has three properties: two managed independently – one managed by the TUI Group.

The project consists of the development of a 119 hectare site owned by the group, including:

- a) 630 bed hotel/holiday village with fitness center and pool/tennis courts
- b) a "residence club" with 544 apartments, pool/tennis courts and shopping facilities
- c) convention center and shopping center with parking facilities
- d) ocean front resort on 55 ha connected to the main resort through an underpass

Total cost of investment: 122400 billion lira (USD 68 million)

Estimate gross profit after five years, assuming an average 70% occupancy rate : 32% for the hotel club.

§ Saving the Coast Program – Palermo

The city of Palermo, through the city's Urban Department, is working on a "saving the coast" program. The program's main objective is to clean up 30 kilometers of abandoned and degraded coastal waters around Palermo. Thus, the program's initial projects focus on the environment of

the coastal waters such as the Water Drainage Project and the Port Authority Project, intended to clean the sea water and build proper sewage and water treatment plants. Once the water, the coast, and the overall environment in the area are improved there are plans to develop the area with new buildings, new infrastructure, and new roads. There are also plans to close the harbor area to cars and improve the archeological sites.

The initial program costs are estimated at 135 million euro (USD 135 million), and the goal is to finish in 5 years. The entire value of the program including the environmental improvements and the future development plans is estimated at 310 million euro (USD 310 million).

§ The Messina Strait Bridge project

The Italian Government plans to build a 3,300 m single span suspension bridge to connect main land Italy (at Calabria) to the island of Sicily (at Messina). After two decades of feasibility studies, design studies, and environmental impact studies the Italian government in April of 2002 reported a unanimous decision to construct the Messina Strait Bridge. The only stipulation is that private investors finance at least 50% of the work. The proposed design plan will support an estimated 9,000 vehicles per hour in addition to passenger trains. It is predicted that the construction of the bridge will have a positive effect on the development of southern Italy. Not only is it expected to meet the rising demand of passenger and goods transport from the mainland to Sicily and vice versa, but also to stimulate the economic development of southern Italy by increasing access to previously isolated metropolitan and rural areas. A main priority of this development is tourism infrastructure.

§ Golf Course Development

All regions have golf-upgrading or development of golf courses in their urban plans. This applies in particular to central and southern Italy, where the climate would permit around the year utilization.

§ TOURISM INVESTMENT PROJECTS (Puglia, Calabria, Sicily, Sardinia)

Sviluppo Italia, the Italian Government Investment Promotion Agency for the south of Italy (Mezzogiorno), is trying to attract foreign firms to invest in tourism infrastructure projects in southern Italy. The agency is supporting various tourism investment projects in the Mezzogiorno. The agency either owns capital of a company willing to participate in the tourism projects and/or land that can be developed for tourism purposes. In terms of capital in companies, the agency may be willing to give up shares to interested parties. In regards to land development, the agency would like to develop the land but is open to partnerships for development with outside firms. Once the land is developed they are looking for firms to own and manage sites and facilities. The projects include improving port areas, building hotels, opening vacation villages and residences, and developing other tourism infrastructures. Currently, the agency is investing in the following tourism investment projects in the Mezzogiorno.

The participation of Sviluppo Italia (%) in tourism investments in Mezzogiorno

Grand Hotel Terme (Grand Hotel delle Terme)	48
Robinson Club Italia	15
Fin.Inv.Imm.	47
Torre d'Otranto	70
Villa Igiea Marina (Marina Villa Igiea)	8
Acquamarcia South Tourism (Acquamarcia Turismo Sud)	30
Imm. Paradiso Etna	14
Raphael	45
South Garden (Garden Sud)	41
Tourism and Developoment (Turismo e sviluppo)	49
Simeri Coast (Costa di Simeri)	76
Sapo	59
Ala Birdi	30
Angeli Golf (Golfo degli Angeli)	18
Svil. Nautico Sardo	32
Costa Verde Residence (Residence Costa Verde)	100

According to Sviluppo Italia, the Mezzogiorno is only using 20 percent of its resources and has enormous potential to continue developing in the tourism area. US firms interested in investing in tourism in Italy can get assistance from Sviluppo Italia. Sviluppo Italia's Foreign Direct Investment Office provides assistance in permits, funding, tutoring, and logistics for foreign firms. The contact person is Dr. Luca Ebreo, Sviluppo Italia, Via Calabria, 46 - Rome; ph.: 0039/06/42160901; fax: 0039/06/42160946.

Hotel Franchising/Management/Education training

Most hotels are interested in agreements with U.S. chains in order to improve overall services.

Market Access

As part of the Italian government's effort to develop Italy's southern regions, a comprehensive USD 300 million plan has been recently announced for 447 projects to be carried out in the south. These will be financed primarily through EU funding and supplemented by local investment. Most of the regions in southern Italy have expanded their efforts to attract more tourism and build infrastructure to accommodate this influx. For example, more regional airports, TAV - the high-speed rail network, and the Salerno/Reggio Calabria highway (approximately 300 miles long) to six lanes.

On the whole, the Italian government is favorable to foreign investors. No specific Italian government regulations restrict private investment in the tourism infrastructure sector,

management, feasibility studies or other related. However, for non refundable EU and central or regional government matching funds, there may be regulations restricting the availability of these funds to European firms. To transfer benefits of EU-funded projects to U.S. companies, these companies must have a subsidiary in any of the EU countries or operate through European partners. The government investment agency, Sviluppo Italia, will facilitate foreign companies' participation in any of the projects approved by local/central governments.

Tax incentives/facilitation

The Italian government has instituted automatic tax credits for practically all of southern Italy and some of the depressed areas in central and northern Italy.

Italy has a large range of laws giving incentives, lower labor costs and other benefits to infrastructure projects in southern Italy.

Prospective U.S. companies interested in entering the Italian market are encouraged to contact U.S. Commercial Service Italy. For further information on tourism infrastructure related projects, firms should contact Brian McCleary, Commercial Counselor, Commercial Service, American Embassy, Rome, Italy or Commercial Specialist, Albina Parente, Commercial Service, American Consulate General, Naples Italy: tel.- 0039-081-5838206; fax – 0039/081/7611592.